Industry Canada | Industrie Canada

Canada's Place on the World Economic Stage

FCPMC 41st Annual Conference

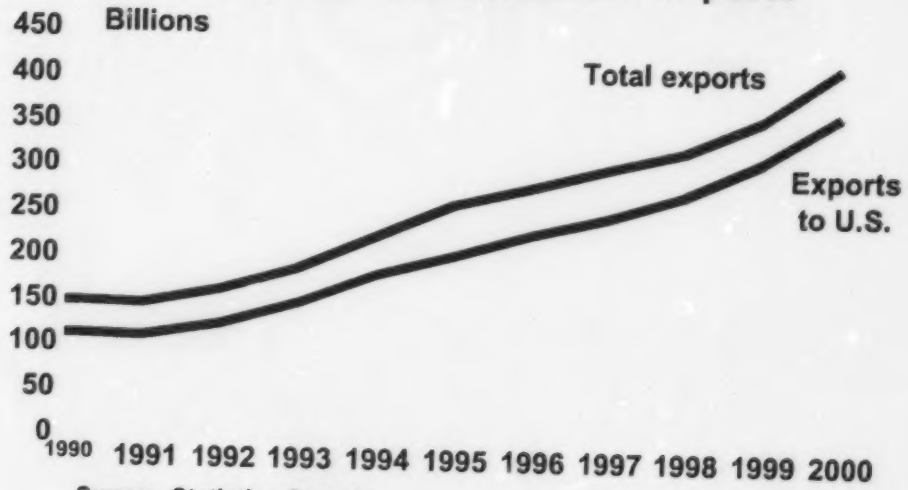
V. Peter Harder
Deputy Minister
Industry Canada

April 3, 2001

Canada is an active player in the global economy

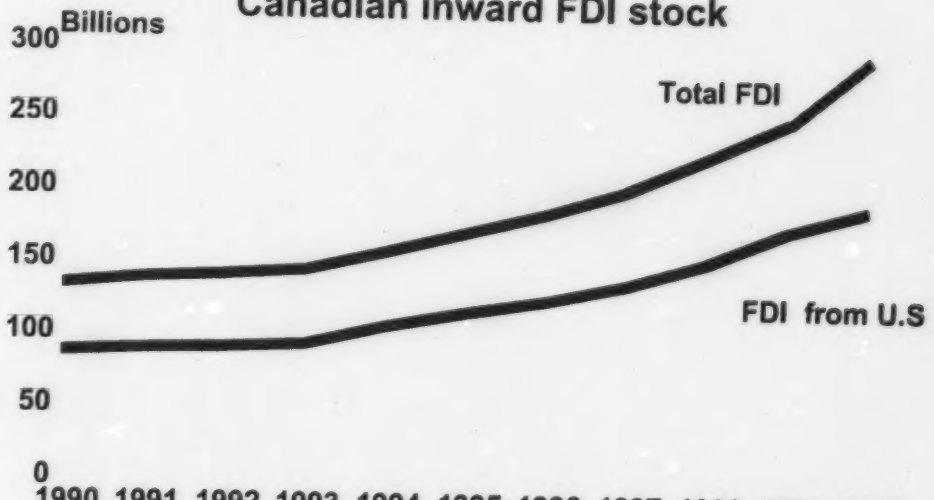
- Canada is taking advantage of the increasingly global economy.
- Exports have grown by 175% over the 1990s and inward FDI by 122%.

Canadian merchandise exports



Source: Statistics Canada

Canadian inward FDI stock

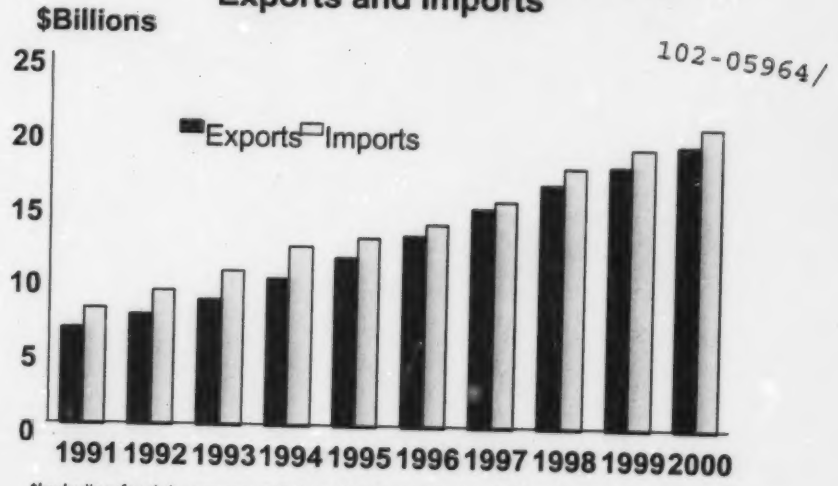


Source: Statistics Canada

And, so too are members of FCPMC

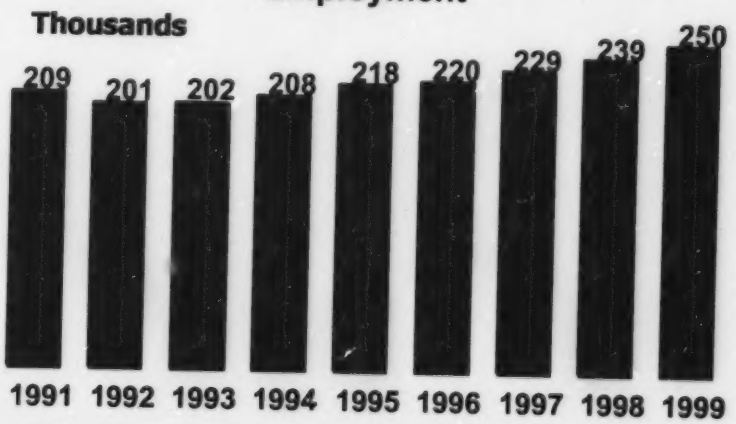
- The Consumer Packaged Goods Industry has seen both exports and imports rise significantly over the last decade.
- The Industry's contribution to the economy and to job creation has also been rising.

Consumer Packaged Goods Industry*
Exports and Imports



*Including food, beverage, printing, pharmaceuticals, plastics, and paper box and bags.
Source: Trade on Line, Industry Canada

Consumer Packaged Goods Industry*
Employment



*Including food, beverage, printing, pharmaceuticals, plastics and paper bags.

Source: FCPMC 2000/2001 State of Industry Report

But, Canada faces the challenge of being a leader on the world's knowledge-based economic stage

- Leadership in the global economy is about knowledge and the innovative use of knowledge.

"Today, the strength of a nation is measured not by the weapons it wields, but by the patents it produces; not by the territory it controls, but by the ideas it advances; not only by the wealth of its resources, but by the resourcefulness of its people. In such a world, successful nations will only be those that foster a culture of innovation. They will be those that create new knowledge and bring the product of that knowledge quickly to market. Our goal as a nation must be to lead the way."

Budget Speech
February 28, 2000

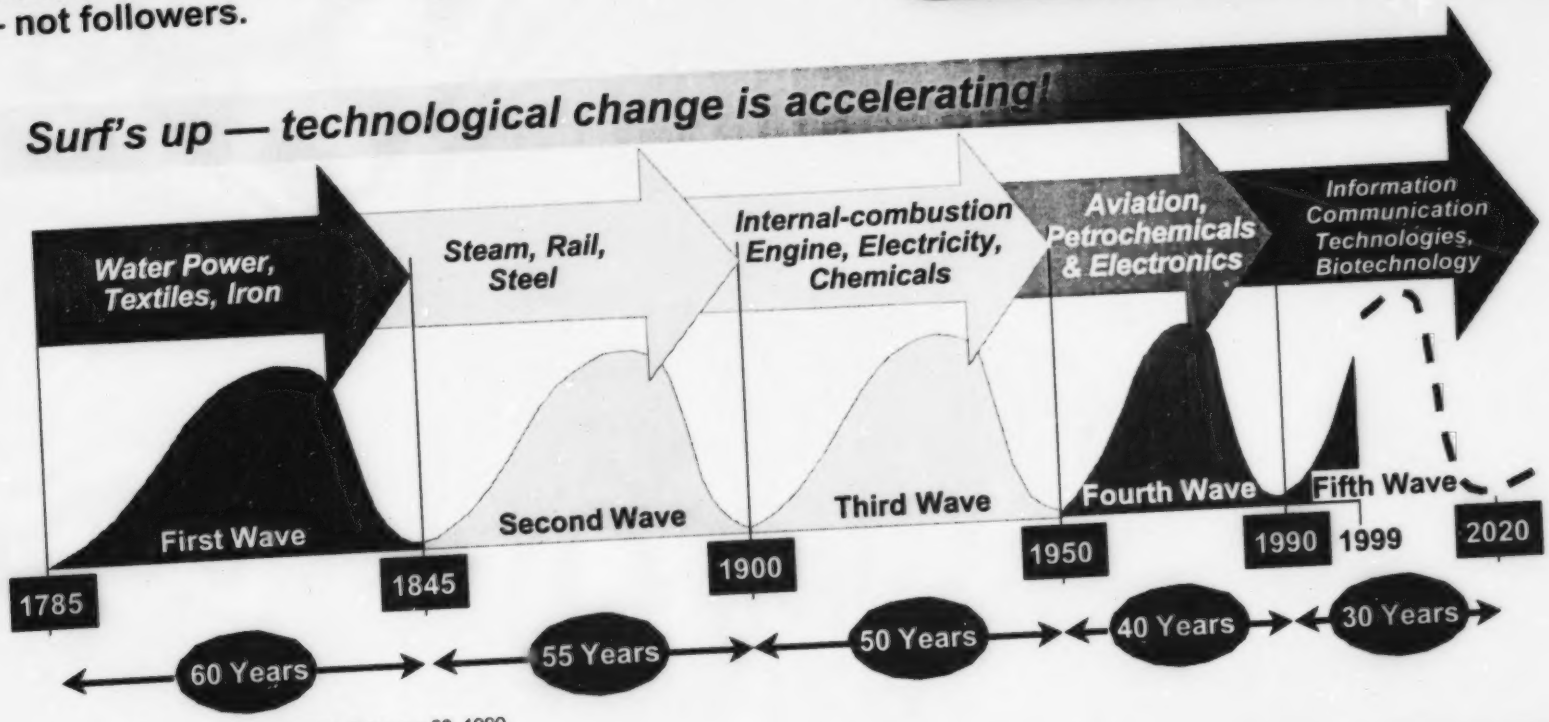
The global economy is driven by knowledge

- Rapid economic growth comes in waves:
  - linked directly to major technological changes
  - fuelled by a few leading-edge industries.
- The potential growth benefits from new technology are enormous, but go mostly to countries and industries which are first adopters — not followers.

"Today, America gets more than half its economic growth from industries that barely existed a decade ago -- such is the power of innovation, especially in the information and biotechnology industries."

The Economist, February 20, 1999

Surf's up — technological change is accelerating!



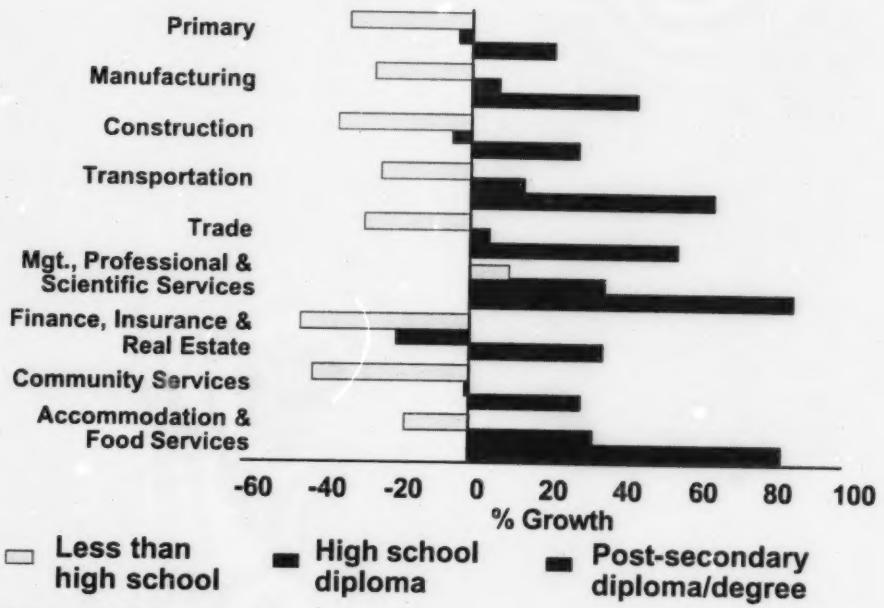
Source: The Economist, February 20, 1999

Knowledge is the key to innovation

- **Output is expanding fastest in the high-knowledge sectors of the economy.**
- **And, knowledge workers dominate employment growth in all sectors of the Canadian economy.**

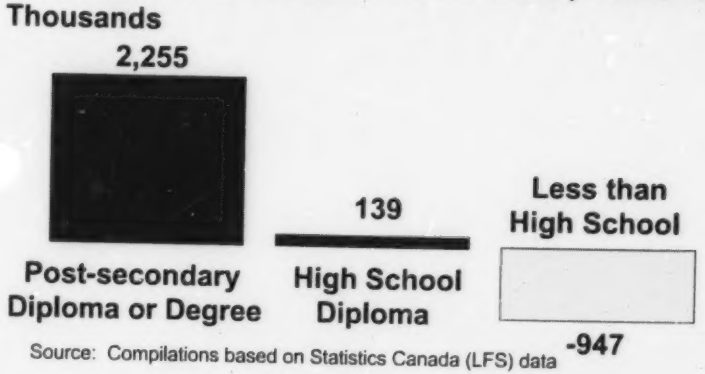
Canada and the Knowledge-based Economy

Employment Growth by Educational Attainment by Sector, 1990-99



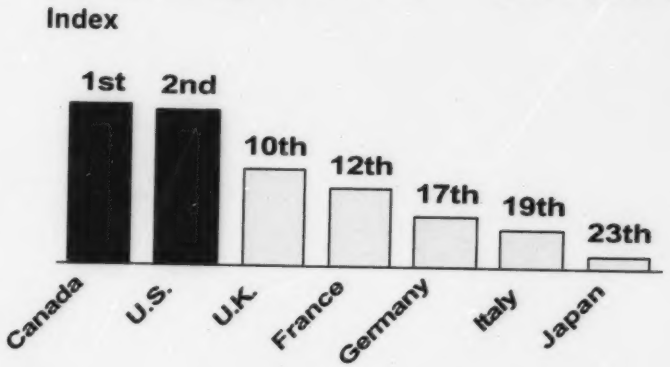
Source: Statistics Canada
MEPA – APME

Employment Growth by Highest Level of Education Attained, 1990-99



Source: Compilations based on Statistics Canada (LFS) data

Knowledge workers — World rank*



*Tertiary education enrollment among 59 countries considered in the Global Competitiveness Report 2000
Source: Global Competitiveness Report 2000

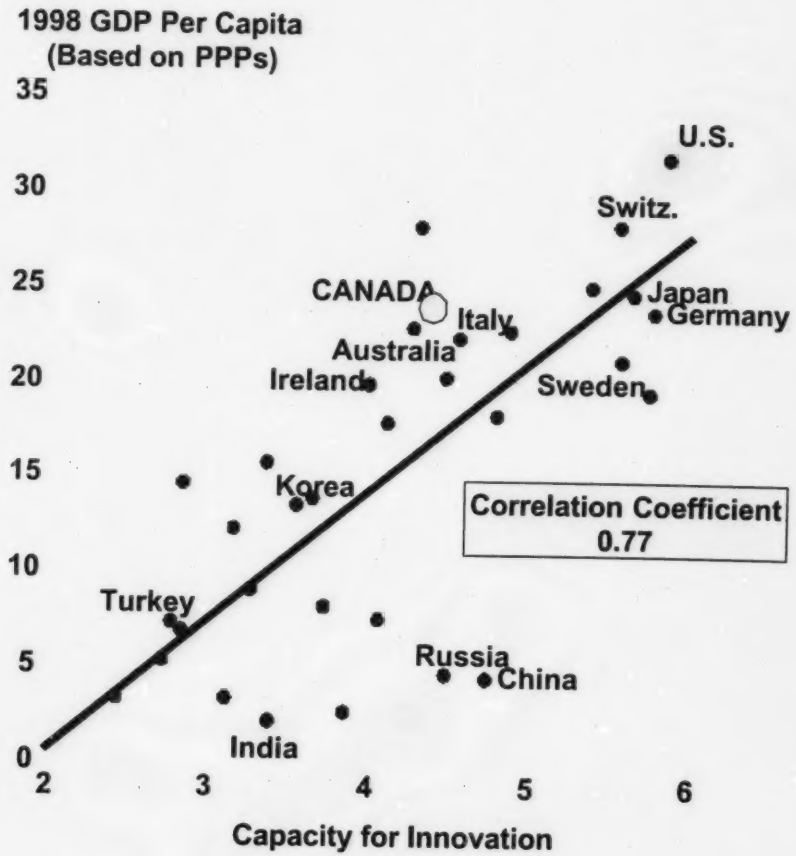
Innovation leads to rising standards of living

- Relationship between innovation and standard of living is strong and direct.
  - Innovation is key driver of productivity.
  - Productivity growth is, in turn, primary mover of living standards.
- The message is clear – innovative countries are wealthy countries.

"A productive and efficient economy does not require individuals to work harder for less. It is organized and structured to take maximum advantage of the human and physical resources of the country; it allows people to work smarter, not harder."

The Conference Board of Canada
"Performance and Potential 1999"

Relationship Between Innovation and Wealth, 1998

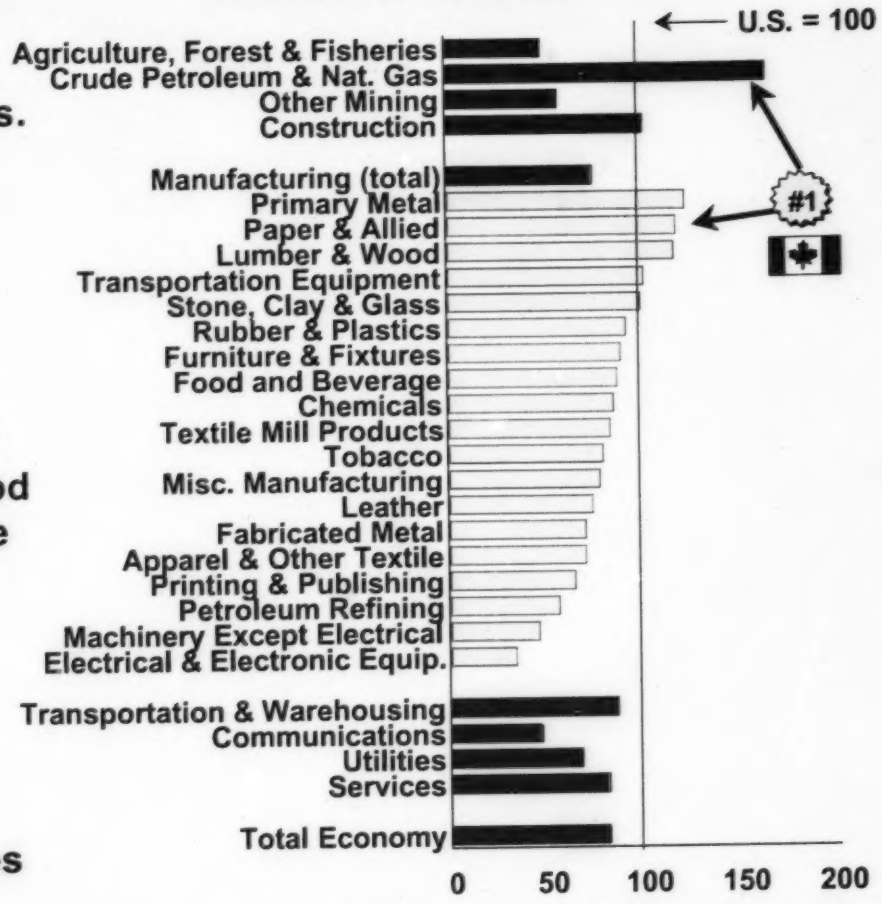


Source: Global Competitiveness Report 1999

Innovation is not limited to new and emerging industries

- Innovation is not only about investing to create technology but also about creating organizational context, values and management systems that support development of commercially viable ideas.
- New technologies, new processes, new ways of doing things yield competitive advantage to any industry or company.
- Natural resource-based industries – like Crude Petroleum & Natural Gas, Primary Metal, Paper & Allied, and Lumber & Wood – have successfully translated innovative efforts into productivity advantage over U.S.
- This year's FCPMC State of the Industry Report notes that value added in your industry continues to rise despite moderate increases in raw material prices for some food items and a highly competitive environment prohibiting price hikes.

Relative Labour Productivity* of Canadian Industries, 1997



* GDP per worker and 1996 for manufacturing industries

Source: Industry Canada computations based on Centre for the Study of Living Standards database and 1998 OECD STAN database

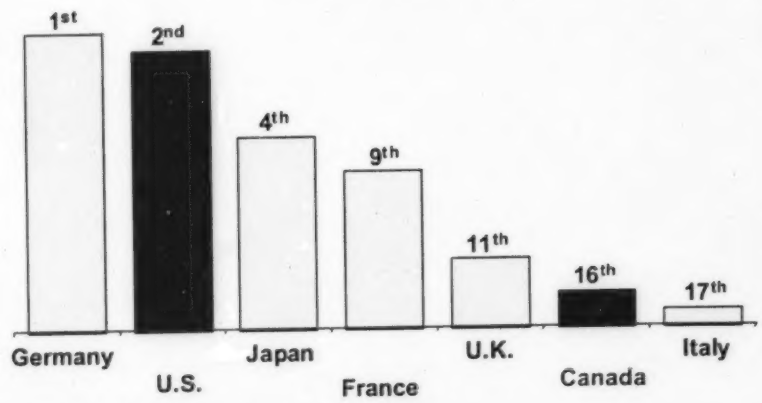
Innovation is about being forward-looking

- Canadian business corporate strategies are ranked 16th in the world and 6th among the G-7 in the latest Global Competitiveness Report.
- Almost 25% of manufacturing firms feel that they are using technology that is less advanced than their U.S. counterparts.

"For Canada's relative prosperity to rise, we must shift away from competing on the basis of replication toward competing on the basis of innovation - that is, on the basis of unique products or processes. This in turn will necessitate greater level of both business innovation and technological/scientific innovation in the Canadian business sector. And it will need to be supported by innovation rather than replication from the government sector."

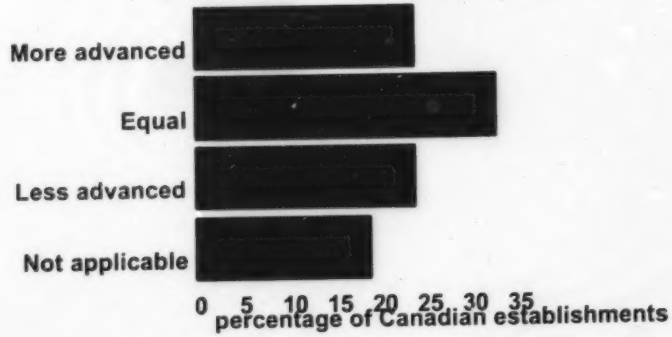
Roger Martin, Dean
Rotman School of Management
University of Toronto
February 2001

Company Operations and Strategy World Rank



Source: The Global Competitiveness Report, 2000

Canadian Technology Competitiveness Relative to U.S. Self Assessment, 1998

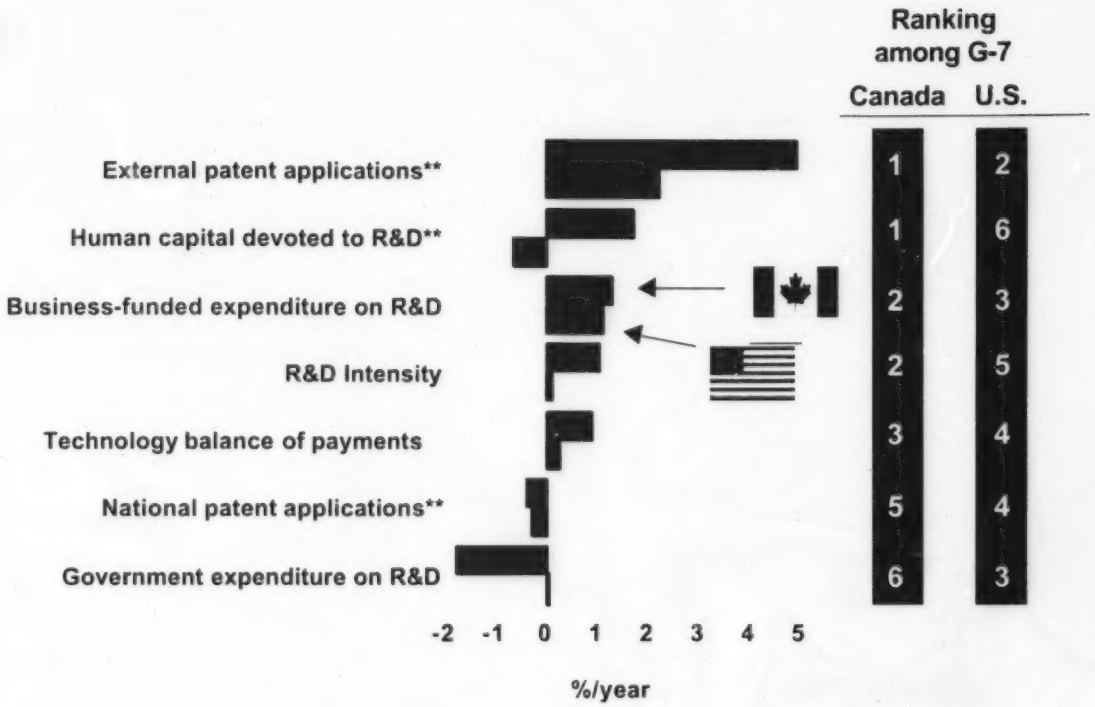


Source: D. Sabourin and D. Beckstead "Technology Adoption in Canadian Manufacturing: Survey of Advanced Technology in Canadian Manufacturing 1998," Statistics Canada, 1999.

Overall, Canada has been investing heavily in innovation

- Over recent years, Canada has made great strides in closing its innovation gap with its major competitors.
  - Canada has had the fastest rate of growth of workers devoted to R&D and of external patent applications among the G-7 countries.
  - R&D expenditures (especially by business) have also increased at an impressive pace – second among the G-7.
- Canada's growth in its innovation capacity is faster than that of the U.S., but we are starting from much further behind.

Growth in Canada's Innovation Capacity (Growth relative to G7, 1981-97*)



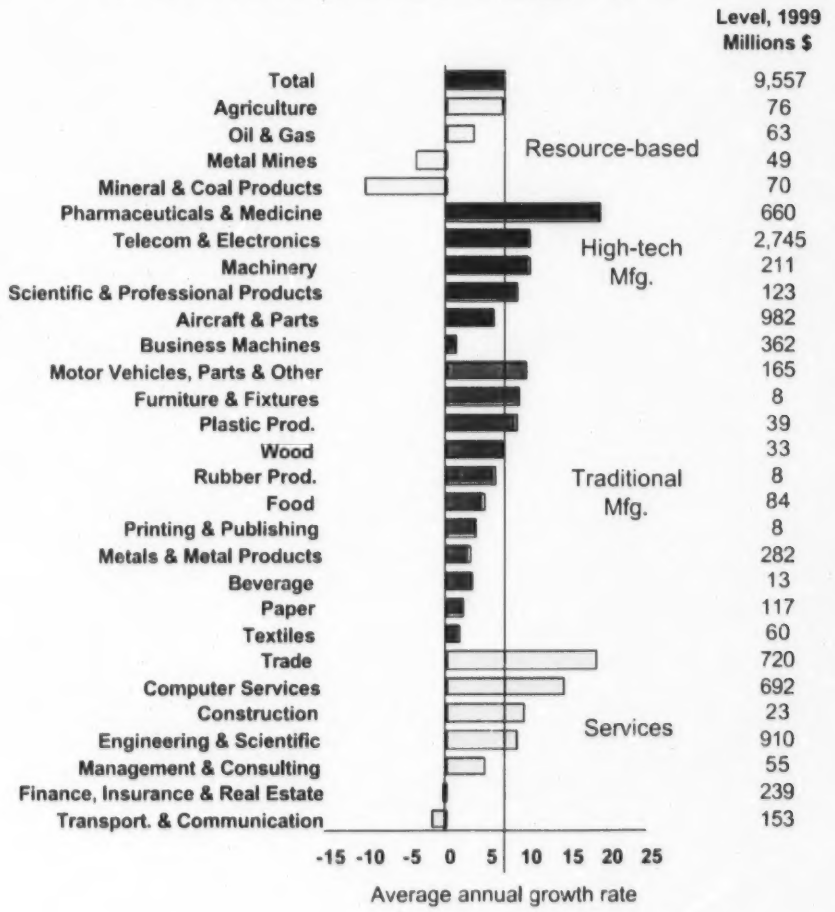
* Or latest year available
** Adjusted by labour force
Source: OECD, Main Science and Technology Indicators 1999-2; and Conference Board, 1999, 1st Annual Innovation Report.

And, investment is taking place across all industrial sectors

- **In fact, virtually all industries are undergoing major changes in technologies.**
- **This is contributing to improvements in product quality, and in the increased versatility and flexibility of our industries.**
- **Capital expenditures by the Consumers Packaged Goods Industry have been trailing the manufacturing average. In 1999, investment was up 7% compared to 7.9% for the entire manufacturing sector.**

Technological change is embraced by high-tech sectors as well as traditional sectors such as Trade and Oil & Gas.

Growth in R&D Spending, %, 1991-99

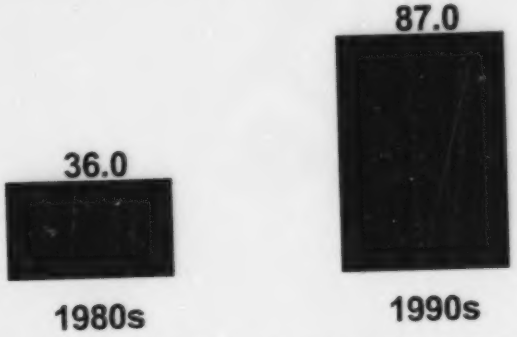


Source: Statistics Canada, Industrial Research & Development, 1999 Intentions

Business is taking up the innovation challenge

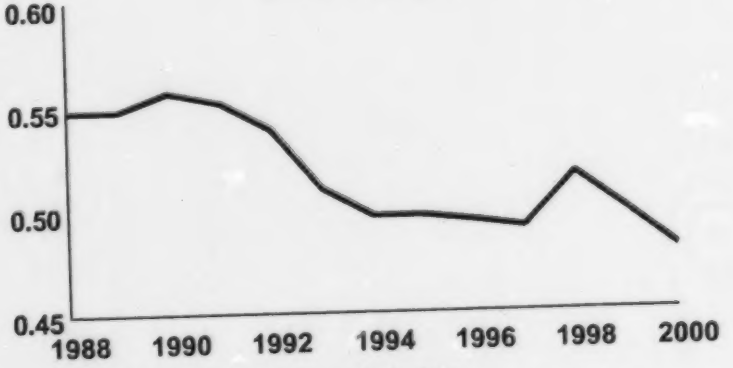
- Canada's future success hinges on ability to take advantage of new opportunities associated with the KBE and to meet challenges of technological change.
- A recent Bank of Canada study shows that business restructuring intensified in the 1990s with some 87% of firms undertaking major restructuring.
- And, change and the adoption of "just-in-time" delivery is also evidenced by falling inventory-to-sales ratios.

Percentage of Firms with Major Restructuring*



* Restructuring included various operational changes as well as workforce adjustments. These encompass changes to the size and location of operations, narrowing the focus of business, as well as significant investments to alter methods of production.
Source: Kwan C., "Restructuring in the Canadian Economy: A Survey of Firms," Bank of Canada Review, Summer 2000.

Inventory to Sales Ratio* in Manufacturing and Trade



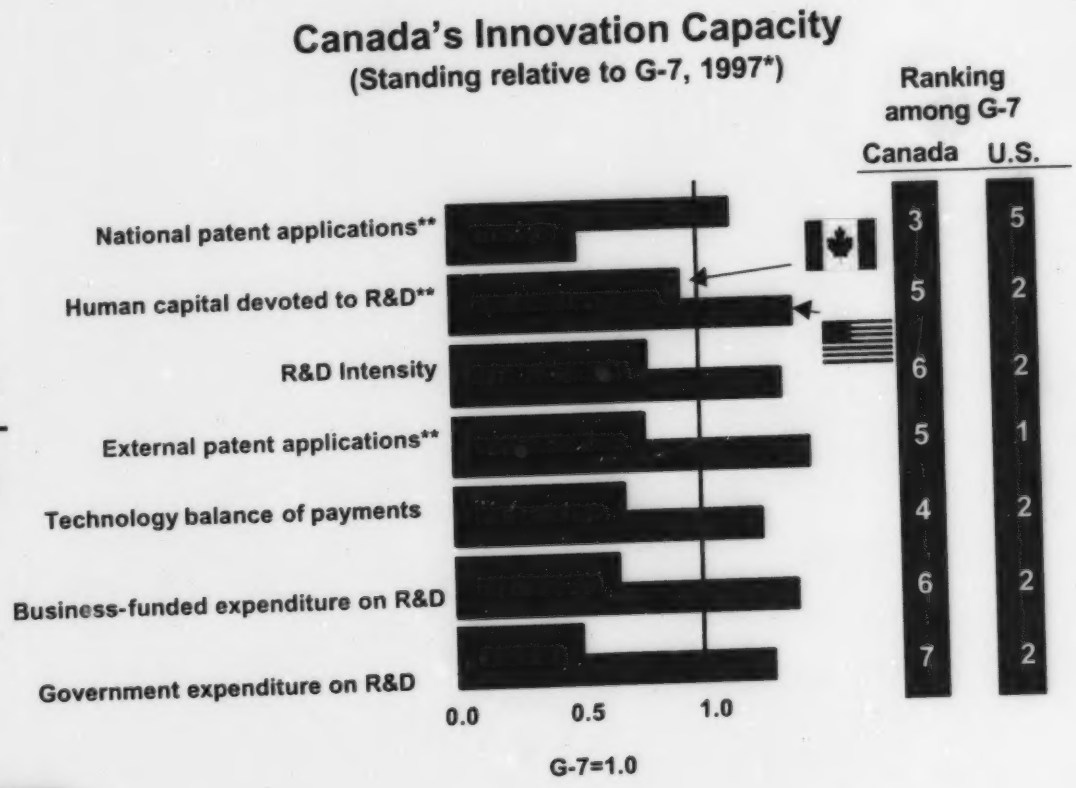
* Annual average based on quarterly data
Source: Industry Canada based on Statistics Canada's data

But, Canada still faces a sizeable innovation capacity gap

- **Although the pace of innovation has been relatively faster in Canada than most other G-7 countries, its level of innovation capacity still remains near the bottom.**

- **Canada should not become complacent. We need to become more innovative at a faster pace – our competitors are not standing still!**

- **In particular, there still exists a significant innovation gap between Canada and our main competitor, the U.S.**



* Or latest year available
** Adjusted by labour force
Source: OECD, Main Science and Technology Indicators 1999-2

"Canadian companies must make significant progress in their innovation performance. If they do so, ... they will be more productive and generate more wealth and jobs."

Conference Board of Canada
Innovation Report, 2000

The federal government is very committed to closing the innovation gap

- Government role is to set positive business climate and institutional framework — which are conducive to, encourage, and facilitate innovation.

- Government making strong investments in knowledge and innovation, including:
  - Canada Research Chairs;
  - Canadian Foundation for Innovation;
  - Canadian Biotechnology Strategy;
  - Sustainable Development Technology Fund;
  - TRIUMF; and,
  - Connecting Canadians Agenda.

"...we have also made strategic investments to build the foundation of the new economy of the 21st century. Investments in health care, education, innovation and to give our people a fast lane on the information highway. Making such investments, within our means, in innovation, science, research and development will continue to be a top priority in our new mandate."

Prime Minister of Canada
December 3, 2000

And, we will continue to make strategic innovation investments

- Throne Speech stresses innovative economy essential to creating opportunity for Canadians.

- Government:

  - wants Canada to become one of top five countries for R&D performance by 2010 and will at least double current federal R&D investment by 2010;

  - will continue to strengthen research capacity of universities, government laboratories and institutions;

  - will accelerate Canada's ability to commercialize discoveries, turning into new products, services; and,

  - will pursue a global science and technology strategy, supporting more collaborative international research at the frontiers of knowledge.

"The Government of Canada, for its part, will focus on: building a world-leading economy driven by innovation, ideas and talent..."

"An innovative economy is one where the benefits of new ideas are shared by every sector and every region -- from East to West to North, from office workers to farm families."

Speech from the Throne
January 30, 2001

For Canada, our place on the world economic stage largely means increased linkages with the U.S.

- Canada-U.S. links are deep and pervasive:
  - TRADE: $1.3 million a minute, 45% is intra-corporate, exports to U.S. are about 40% of business-sector GDP,
  - CAPITAL: about $340 billion in two-way foreign direct investment, dramatic growth in integration of financial markets,
  - PEOPLE: more than 200 million people cross the border every year, telecommunications traffic over 6 billion minutes annually,
  - OUTSIDE PERCEPTION: North America viewed as one space.

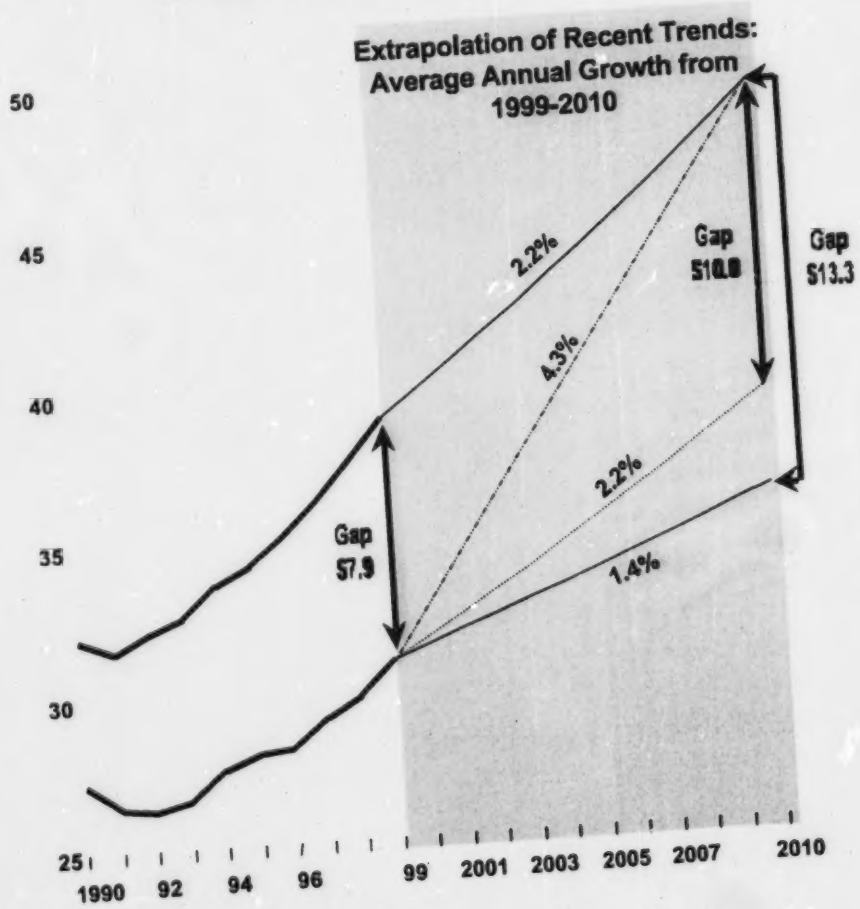
And, keeping our place within the North American economic space

- Canada has secured much freer access through FTA and NAFTA to the U.S. – our largest trading partner and world's leading economy.
- However, Canada not successful in using this advantage to reduce sizeable gap in per capita incomes.
- Canadian real per capita GDP needs to grow at 4.3% per year (GDP by 5.3%) to close gap by 2010.
- Canada's share of North American bound foreign direct investment has declined steadily.

North American Inbound FDI Stock (%)

Source: U.N. World Investment Report, 1999, Statistics Canada, U.S. Bureau of Economic Analysis and Mexican Ministry of Commerce and Industrial Development (SECOFI)

Real Gross Domestic Product Per Capita Canada and the U.S, in $ '000*



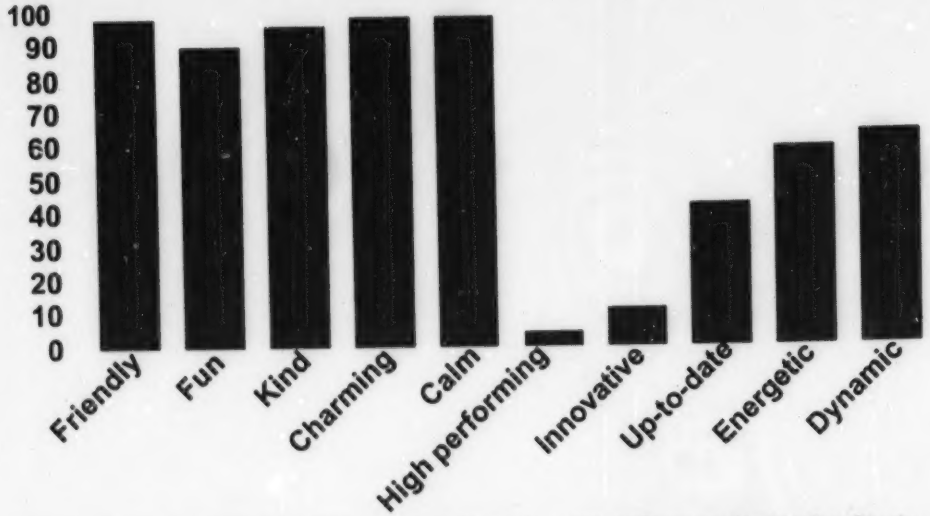
*In 1996 CDN$ using 1996 PPPs.

Source: Industry Canada compilations based on data from Statistics Canada, U.S. Bureau of Economic Analysis and OECD.

Our "brand" needs a facelift

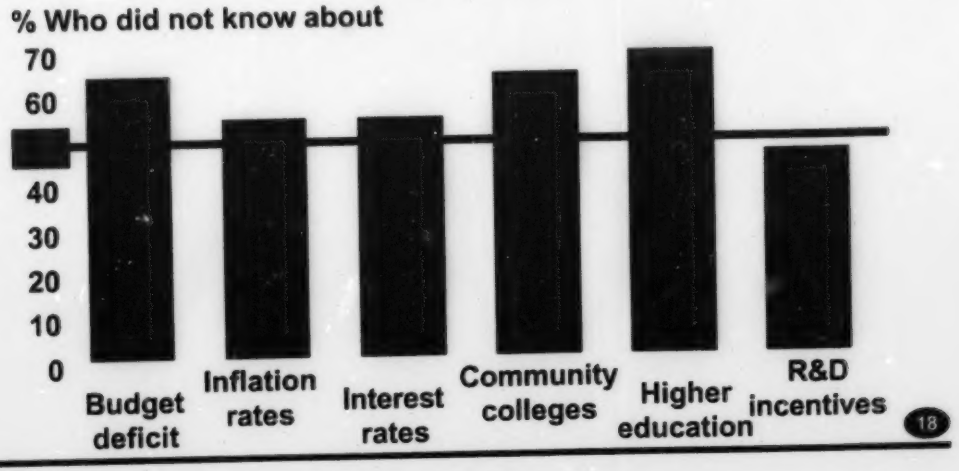
- Canada has awareness, and "brand", challenges abroad:
  - Aspects of Canada's "brand" are positive and well known – but primarily softer values... (fun, kind, charming).
  - But, we rank much lower in attributes valued by investors... (high performing, innovative).
- And, where Canada has real strengths (deficit, inflation, interest rates, education, etc.) there is very low awareness in the U.S.

U.S. Perceptions of Canada*



Source: Young & Rubicon Brand Asset Valuator, 1999 *Burson Marstellar Study

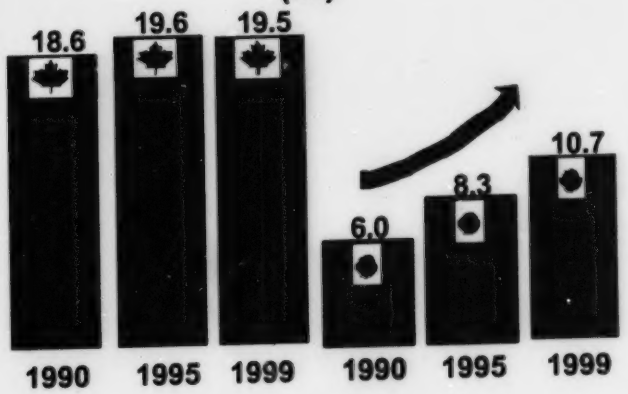
U.S. Site Selectors' Limited Knowledge of Canada



And, there is the Mexico factor

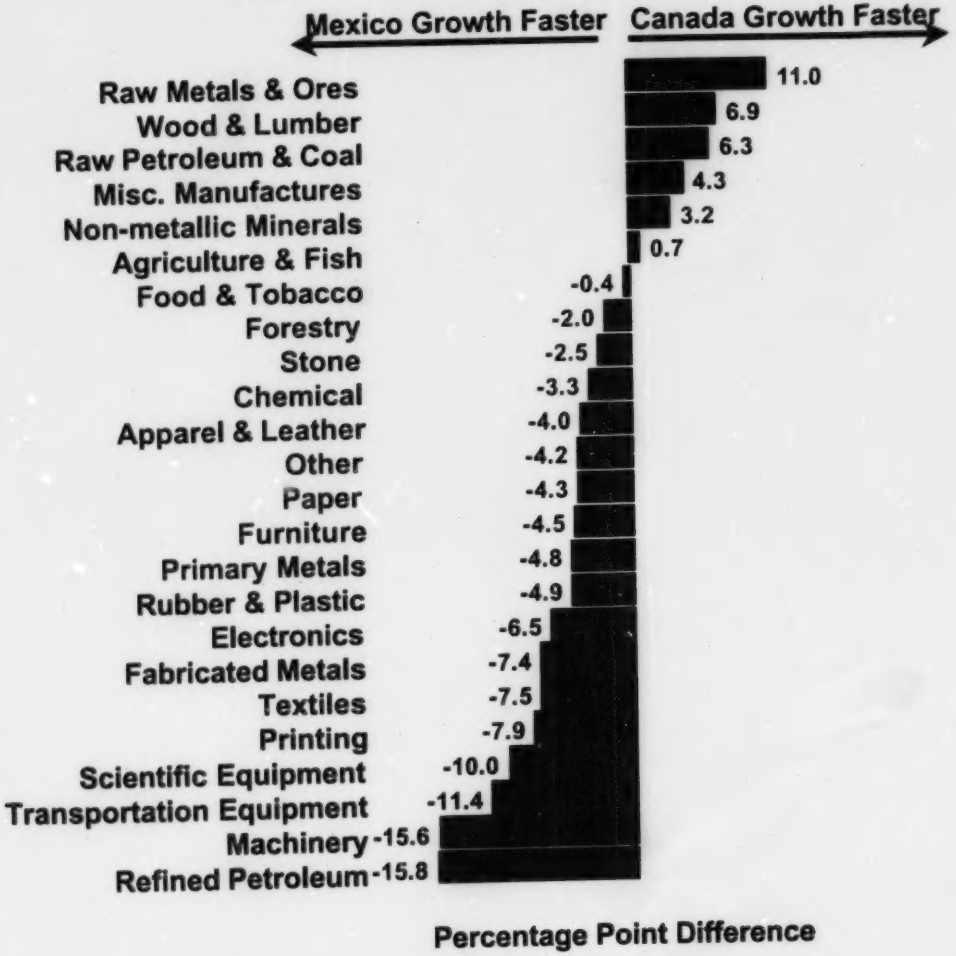
- **NAFTA and political changes in Mexico increasingly shaping North America into 3-country economic space.**
- **Mexico is closer to important U.S. markets in south and west and is competing with Canada in growing range of goods.**

Share of U.S. Merchandise Imports (%)



Source: Industry Canada compilations based on data from U.S. International Trade Commission

Difference in Annual Average Growth in Exports to the U.S. 1990-1999



Source: Industry Canada compilations based on data from the U.S. International Trade Commission

Canada's place on the world economic stage

- Canada is investing in knowledge and innovation.
- Our place on the world's economic stage will be assured by continuing to build on our strengths:
  - our proximity and access to the U.S. market;
  - our highly educated and skilled work force;
  - our world-class research institutions;
  - our communications infrastructure; and
  - our high quality of life.

"To secure our continued success in the 21st century, Canadians must be among the first to generate new knowledge and put it to use. Our objective should be no less than to be recognized as one of the most innovative countries in the world. Achieving this will require a comprehensive approach and the support and participation of all governments, businesses, educational institutions, and individual Canadians."

Speech from the Throne
January 30, 2001